

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

EA-06 FRB-03 INR-07 IO-10 NEA-10 NSAE-00 OPIC-03

SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01 OMB-01 STR-04

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R 291806Z MAY 75

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TO SECSTATE WASH DC 7286

INFO AMEMBASSY VIENNA

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E.O.11652: N/A

TAGS: ECON, OECD

SUBJECT: PREVIEW OF EDRC REVIEW OF AUSTRIA, JUNE 5

REF: OECD DOCUMENT EDR(75)12

1. SUMMARY. SECRETARIAT DOCUMENT IS CONSIDERABLY MORE OPTIMISTIC ABOUT OUTLOOK FOR AUSTRIAN ECONOMY THAN OFFICIAL GOA FORECAST. SECRETARIAT STRONGLY DOUBTS AUSTRIA CAN ACHIEVE OFFICIAL GOVERNMENT FORECAST OF 2.5 PERCENT GNP GROWTH IN 1975, AND CONSIDERS IT MORE LIKELY THAT GNP GROWTH WILL NOT EXCEED 0.5 PERCENT. HOWEVER, SECRETARIAT DOES NOT NOW BELIEVE THAT FURTHER STIMULATION OF AUSTRIAN ECONOMY IS REQUIRED. IN THEIR VIEW, UNEMPLOYMENT MAY RISE SLIGHTLY, BUT NOT ENOUGH TO CAUSE CONCERN. CONSUMER PRICES ARE EXPECTED TO RISE 9 PERCENT IN 1975. OUTLOOK FOR MERCHANDISE EXPORTS IS CONSIDERABLY WORSE THAN AUSTRIAN FORECAST, WITH SECRETARIAT EXPECTING 3 PERCENT VOLUME DECLINE VS. GOA FORECAST OF 3.5 PERCENT INCREASE. HOWEVER, SECRETARIAT SEES STRONG TERMS OF TRADE IMPROVEMENT LEADING TO REDUCTION OF CURRENT ACCOUNT DEFICIT IN 1975, WHILE AUSTRIANS

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EXPECT DEFICIT TO INCREASE. SECRETARIAT SEES NO PROB-

LEMS IN FINANCING DEFICIT. ACTION REQUESTED: COMMENTS  
OR QUESTIONS FROM WASHINGTON AND VIENNA IN TIME FOR  
ANNUAL REVIEW JUNE 5. END SUMMARY.

2. GENERAL OUTLOOK: SECRETARIAT EXPECTS THAT EFFECTS  
OF INTERNATIONAL RECESSION ON AUSTRIAN ECONOMY WILL BE  
SIGNIFICANTLY STRONGER THAN SUGGESTED IN OFFICIAL GOA  
FORECAST, ESPECIALLY WITH REGARD TO EXPORT PROSPECTS.  
SECRETARIAT FORECASTS 3 PERCENT DECLINE IN EXPORT  
VOLUMES, IN LINE WITH EXPECTED NEGATIVE GROWTH OF WORLD  
TRADE IN 1975, WHILE AUSTRIAN OFFICIAL FORECAST  
ASSUMES 3.5 PERCENT GROWTH OF EXPORTS. SECRETARIAT  
THEREFORE UNABLE TO ACCEPT AUSTRIAN OFFICIAL FORECAST OF  
2.5 PERCENT GROWTH IN REAL GNP IN 1975, BUT DOES NOT  
OFFER SPECIFIC ALTERNATIVE GROWTH ESTIMATE IN ANNUAL  
REVIEW DOCUMENT. (FYI: WE UNDERSTAND SECRETARIAT  
CAUTION IN AUSTRIAN ANNUAL REVIEW IS DUE TO PRESSURE  
FROM AUSTRIANS NOT TO SPECIFY LOW FIGURES FOR GNP GROWTH  
FOR FEAR THEY MAY LEAK TO OPPOSITION PARTIES PRIOR TO  
FORTHCOMING NATIONAL ELECTIONS. HOWEVER, IN RECENTLY  
RELEASED DOCUMENTATION FOR ECONOMIC POLICY COMMITTEE  
MEETING ON JUNE 16, SECRETARIAT FORECASTS 0.5 PERCENT  
INCREASE IN GNP FOR AUSTRIA. END FYI) DESPITE WEAKER  
OUTLOOK FORESEEN BY SECRETARIAT, REFDOK STATES THAT  
PRESENT SITUATION DOES NOT CALL FOR ADDITIONAL STIMULA-  
TIVE MEASURES BEYOND THOSE ALREADY TAKEN OR ANNOUNCED.  
SECRETARIAT NOTES THAT PREVIOUS OECD SURVEYS HAVE  
ARGUED THAT "PERMANENT BOOM" OF RECENT YEARS WAS  
UNHEALTHY AND THAT ECONOMY SHOULD BE ALLOWED BREATHING  
SPACE TO AVOID FURTHER LOSS OF PRICE STABILITY. CURRENT  
EASING OF DEMAND PRESSURES IS SEEN AS NECESSARY COOLING-  
OFF PERIOD CONDUCTIVE TO SLOWING DOWN OF INFLATION.

3. OUTLOOK FOR DEMAND AND EMPLOYMENT: SECRETARIAT  
FORESEES THAT NEGATIVE SWING IN REAL FOREIGN BALANCE  
WILL AMOUNT TO APPROXIMATELY 0.75 PERCENT OF GNP. OUT-  
LOOK FOR FIXED INVESTMENT IS WEAKER THAN PREVIOUSLY  
ANTICIPATED, AND RECENT INVOLUNTARY INVENTORY ACCUMULA-  
TION WILL LEAD TO REDUCED STOCKBUILDING IN 1975. REAL  
DISPOSABLE INCOME EXPECTED TO RISE 5 PERCENT, BUT  
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UNCERTAINTIES REGARDING EMPLOYMENT PROSPECTS MAY LEAD TO  
INCREASED SAVINGS RATIO AND CONSEQUENT DAMPENING OF  
GROWTH OF PRIVATE CONSUMPTION. DESPITE EXPECTED DECLINE  
IN ECONOMIC ACTIVITY, SECRETARIAT DOES NOT SEE MAJOR  
DETERIORATION OF EMPLOYMENT SITUATION DUE TO HIGH GOA  
POLICY PRIORITY GIVEN TO JOB SECURITY AND FACT THAT  
MEASURES TO MAINTAIN LABOR MARKET STABILITY ARE ALREADY  
IN PLACE. ASSUMING DECREASE OF 25,000 IN FOREIGN COM-

PONENT OF LABOR FORCE, SECRETARIAT ESTIMATES UNEMPLOYMENT RATE AT ABOUT 2.5 PERCENT IN 1975.

4. OUTLOOK FOR PRICES: SECRETARIAT FORECASTS CONSUMER PRICES TO GROW BY 9 PERCENT IN 1975, WITH MAIN IMPETUS COMING FROM "EXCESSIVELY HIGH" WAGE SETTLEMENTS. SECRETARIAT CONSIDERS IT IMPORTANT THAT FURTHER PRICE

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DECELERATION BE ACHIEVED BY END OF YEAR BEFORE NEXT ROUND OF WAGE NEGOTIATIONS BEGINS.

5. POLICY STANCE: SECRETARIAT DOES NOT BELIEVE THAT PRESENT WEAKNESS OF DOMESTIC ECONOMY REQUIRES ADDITIONAL STIMULATIVE MEASURES AT PRESENT TIME. HOWEVER, THIS RECOMMENDATION DEPENDS ON ASSUMPTION OF MARKED REVIVAL OF EXPORTS DURING SECOND HALF OF 1975, IN ABSENCE OF WHICH THEY FEEL AUSTRIA WOULD HAVE TO TAKE FURTHER MEASURES TO SUPPORT LEVEL OF ECONOMIC ACTIVITY.

6. BALANCE OF PAYMENTS: AS MENTIONED ABOVE, SECRETARIAT FORESEES DECLINE IN EXPORT VOLUMES IN 1975 WHICH, COMBINED WITH SMALL GROWTH OF IMPORTS, WILL LEAD TO DETERIORATION OF TRADE BALANCE. HOWEVER, ANTICIPATED 5 PERCENT IMPROVEMENT IN TERMS OF TRADE WILL BE MORE THAN ENOUGH TO OFFSET DETERIORATION IN REAL TRADE BALANCE, WITH RESULT THAT SECRETARIAT PREDICTS IMPROVEMENT IN CURRENT BALANCE IN 1975. SECRETARIAT IS CONFIDENT THAT AUSTRIA WILL HAVE NO DIFFICULTY IN LIMITED OFFICIAL USE

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FINANCING ITS CURRENT ACCOUNT DEFICIT IN VIEW OF GOOD CREDIT STANDING IN INTERNATIONAL FINANCIAL MARKETS.

7. MISSION BELIEVES THAT SECRETARIAT DOCUMENT, BY FAILING TO INCLUDE PRECISE FORECAST FOR GNP IN 1975, MAY BE OVERLY RESPONSIVE TO AUSTRIAN PRESSURE. WE UNDERSTAND FROM SECRETARIAT OFFICIALS THAT AUSTRIANS HELD UP DISTRIBUTION OF DRAFT SURVEY IN ORDER TO TRY TO WATER DOWN SECRETARIAT CONCLUSIONS. MISSION PLANS TO NOTE AT MEETING THAT SECRETARIAT HAS ALREADY SPECIFIED GNP GROWTH FORECASTS IN EPC DOCUMENTATION AND THAT THESE WILL BE PUBLISHED IN MID-JULY IN ECONOMIC OUTLOOK. THEREFORE, IT WOULD SEEM APPROPRIATE TO INCLUDE SECRETARIAT FORECASTS IN ANNUAL SURVEY OF AUSTRIA.

8. ACTION REQUESTED: MISSION WOULD APPRECIATE COMMENTS OR QUESTIONS FROM WASHINGTON AND VIENNA PRIOR TO ANNUAL REVIEW. WE WELCOME PARTICIPATION OF ECONOMIC COUNSELOR BARDACH AT ANNUAL REVIEW.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC CONDITIONS, GNP, ECONOMIC REPORTS, ECONOMIC DATA, ECONOMIC ESTIMATES, PRICES, FOREIGN TRADE, BALANCE OF PAYMENTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 29 MAY 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** GolinoFR  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975OECDP13812  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750188-0524  
**From:** OECD PARIS  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t1975059/aaaaahyh.tel  
**Line Count:** 204  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EUR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 OECD DOCUMENT EDR(72  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** GolinoFR  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 02 APR 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <02 APR 2003 by ElyME>; APPROVED <07 APR 2003 by GolinoFR>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** PREVIEW OF EDRC REVIEW OF AUSTRIA, JUNE 5  
**TAGS:** ECON, AU, OECD  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006